



# The South African deal

A case study in the arms trade

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Campaign Against Arms Trade (CAAT)

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Gripen fighter jet (L) Alexandra township, Johannesburg (R)

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# Executive summary

The government of South Africa is currently purchasing warships and military aircraft to the dollar value of \$4.8 billion from UK and other European suppliers. The package is made up as follows: from the UK, 24 BAE Systems Hawk trainer aircraft and 4 GKN Westland Super Lynx naval helicopters; from Sweden, 28 SAAB Gripen fighters, in which BAE Systems has a half share; from Germany, 3 submarines and 4 surface warships, variously described as corvettes and frigates; from Italy, 30 utility helicopters. A similar procurement package for the Army, including air-defence systems, nearly a hundred main battle tanks and hundreds of other armoured vehicles, has been deferred but is expected to go ahead before long, and this too will require heavy overseas expenditure.

Some of the usual objections to arms-trade activities do not apply here. South Africa is a democracy, which is entitled to make its own choices. It is not at war or likely to be at war, and any military action outside its borders will take the form of peace-keeping in a troubled region. Nevertheless there are grounds for deep concern about the transaction and especially about the UK's part in it. South Africa urgently needs to spend money on the development of civil industry, water supplies, education, housing and health, above all on mitigation of the catastrophe that is AIDS. On the other hand, it faces no military threat, and peace-keeping in Africa needs troops and light equipment, not warships, fighter planes and tanks.

Up to a point, the new South Africa's priorities were skewed from the beginning, in that preservation of the armed forces was a key condition for the peaceful transfer of power. However, the European deal was not concluded until September 1999, after five years of anxious debate within the country and the government. On the one side, besides a strong peace movement led by the churches, were politicians whose priorities were social and economic. On the other were the vested interests of the armed forces and military industry, and politicians who felt that a well-equipped South African National Defence Force was a patriotic necessity. The balance was eventually tipped in favour of the militarists by two factors: the easy financial terms which South

Africa was able to negotiate in a global buyers' market, and the promise of 'offset' expenditures amounting to more than twice the value of the purchases.

Offsets take two forms: counter-purchases, mainly of industrial components, including military ones; and 'industrial participation', investments in South African industry, especially the arms industry, by the supplying companies and others. In the later apartheid era South Africa had developed significant arms production, mostly under state ownership but with an important private sector as well. During the transitional period between 1989 and 1994 the industry, like the armed forces, was allowed to run down, losing more than half its workers, but the new government decided to preserve what it saw as a national asset. To do this it was necessary to break into the international market, and in principle this was possible since South Africa had important 'niche capacities' and products of world class. (It was capable of producing platforms such as aircraft and tanks, and had done so in the apartheid era, but only at prohibitive cost.) Results, however, were disappointing, and it became clear that the industry could not prosper without foreign money, technology and marketing organisation. While European companies saw offsets as the bait for contracts, South Africans saw the arms purchases as a means of luring the companies into South Africa. As a result, large parts of the arms industry, both public and private, have passed or are in process of passing under foreign control.

The new foreign owners are often in partnership with black business interests, which have probably advanced more rapidly in the arms industry than in any other part of the economy. One motive for the programme was certainly to accelerate 'black empowerment', which in principle means the matching of political with economic emancipation, but in practice can mean unmerited rewards for politically influential individuals. This distortion was much more important than the cases of direct corruption that have been discovered in connection with the purchases.

With the aid of some creative accounting the promised offsets are likely to be delivered, but the hoped-for net gain of 65,000 jobs will

**The deal supports the mutual interests of the European and South African politico-military-industrial complexes. The real needs of the South African people do not figure**

not. For arms production is capital- and technology-intensive, and an equivalent investment by South Africa in, say, water supplies would have provided far more employment.

For the vendor companies, South African sales were useful in themselves. The Hawk purchases helped BAE Systems to keep an important production line going, while its share in the Gripen would provide income in the awkward gap between the Tornado and the Eurofighter and the Joint Strike Fighter. But probably more important was the opportunity for BAE and others to gain effective control over the South African arms industry. This will help to secure future business. For instance, if tanks had been ordered in 1999 they would have been French Leclercs, not Vickers Challengers. But Alvis Vickers now owns most of South Africa's main manufacturer of armoured vehicles, so is well placed to get the tank order when it materialises. In addition, the companies are acquiring facilities which, being both high-tech and low-cost, are ideal for the 'outsourcing' that is the order of the day.

The deal, however, could never have gone through without the support of the vendor governments. The banks which financed the package were able to offer generous terms because the loans were underwritten by the Export Credits Guarantee Department and similar bodies in Germany and Italy. The

South African authorities had always known that to get the best deal they must negotiate packages with governments, not individual contracts with companies. Their choice of suppliers was dictated partly by financial but even more by broader political considerations. US arms companies were excluded by the mutual suspicion that existed between the two countries. (It was even whispered that the real function of the new warships was to deter a US attack.) In Europe, a prime object of South African policy was easier access to the EU market. The UK and Germany, which received the bulk of the orders, were better disposed in this matter than France, which got little, and Spain, which got nothing.

The vendor governments, especially that of the UK, did not merely help to lubricate the contracts but actively promoted them. South Africa's decision to rearm was in part the result of sustained external pressure, culminating in a visit by Tony Blair to Pretoria in January 1999, which is said to have clinched the deal. It is also remarkable that in the selection of ships and aircraft South Africa ended up with the most expensive of the available options. London's motives (and doubtless Berlin's and Rome's) were those which have so long sustained the arms export trade. The jobs argument has little economic but considerable political validity. More important is the deep-seated conviction that a flourishing arms industry (which requires exports to survive) is a badge of national status.

So the deal supports the mutual interests of the European and South African politico-military-industrial complexes. The real needs of the South African people do not figure.

# Introduction

In November 1998 the government of South Africa provisionally agreed with UK and other European arms companies to purchase an array of weaponry valued at just under 30 billion rand – then equivalent to roughly \$5.2 billion or £3 billion. The object was to modernise the South African Navy and Air Force – the Army's needs were held to be less urgent but the prospect of a similar package of tanks and artillery was held out for a later date. The current package consisted of the following items:<sup>1</sup>

- 4 frigates and 3 submarines to be supplied by German shipbuilding consortia for R11.2bn
- 28 Gripen fighter aircraft from the Anglo-Swedish company SAAB for R10.875bn
- 24 Hawk lead-in fighter-trainers from British Aerospace (soon to be BAE Systems) for R4.728bn
- 4 Super Lynx naval helicopters from the UK company GKN Westland for R787m
- 40 utility helicopters from the Italian Agusta company for R2.168m.

On the face of it, this deal was a great mystery. The new South Africa has no enemies, and there is no power within thousands of

miles that could do it harm. On the other hand, there is a crying need for social and economic expenditure of every kind, above all on coping with the catastrophe that is AIDS. So why on earth should it lavish vast sums of money on warships and warplanes which, with the exception of the utility helicopters, were never likely to be used?

A partial answer is provided by a remarkable feature of the deal. In return for the purchases the vendors promised 'offset' expenditure amounting to R110bn. This would take the form partly of purchases from South African suppliers and partly of capital sums to be invested in both military and civil industry. It was calculated that 65,000 jobs would thereby be created in a country with a massive and intractable problem of unemployment. It is not hard to see how this bait proved tempting even to those ministers and others who were least impressed by the military case.

But the solution to one mystery merely creates another. Mackerels are not commonly used to catch sprats. How could either the arms companies or UK and Germany plcs benefit from outlays that would be more than three-and-a-half times the prospective receipts?

## South African background

### Politics of the transition

The explanation of South Africa's extravagance is not to be found solely in the offsets. It also lies deep in the history of the apartheid regime and of the liberation struggle. The process that resulted in the establishment of the Mandela government in 1994 was not a straightforward victory for the democratic forces nor a simple capitulation on the part of the former ruling class. It was a negotiated compromise whereby the non-white majority was granted political power in return for guarantees of essential white interests. The African National Congress (and its Communist allies) had to accept the capitalist structure of South African society, and, perhaps even more crucially, it had to come to terms with the military-industrial complex. The key to the peaceful transition was found in talks held during 1993 between the ANC leaders Nelson Mandela, Thabo Mbeki and Jacob Zuma on the one hand and the recently retired general and right-wing politician Constand Viljoen on

the other. The dialogue, it is said, was surprisingly friendly. (The labour leader Cyril Ramaphosa, believed by many to be Mandela's destined successor, did not achieve similar rapport and was before long in political eclipse.) There had also been 'social meetings' between the commander of the South African Defence Force (SADF), Andreas Liebenberg, and his former enemy Joe Modise, a prominent leader of Umkhonto we Sizwe, 'the Spear of the Nation' (MK), the armed wing of the ANC.<sup>2</sup> Though there was a strong pacifist strain in the opposition to apartheid it was not dominant. Mandela himself, the founder of MK, has never professed pacifism, and he was open to the patriotic argument that the new South Africa, though eschewing aggression against its neighbours, should be a respectable military power. So there was the basis for an accord. The South African Defence Force (SADF) would acquire a middle initial N (for National) and would absorb the former guerrillas, but would keep its command structure and its capacity to be a fighting force.

<sup>1</sup> *Financial Times*, 19.11.98; *Jane's Defence Weekly*, 25.11.98

<sup>2</sup> *Africa Confidential*, 11.9.92 and 7.1.94

Accordingly the armed forces and their supporters in the white community did not use the veto that they undoubtedly possessed. The Constitution under which Mandela took office in the following year prescribed that South Africa should have 'a modern, balanced, technically advanced National Defence Force'. Equally important was the implied corollary, the survival of the manufacturing industry that had grown up to sustain the military. In fact a future for both the armed forces and the arms industry was more or less guaranteed by the appointment of Modise as Defence Minister in the new government, with Ronnie Kasrils, another hero of the armed struggle, as his deputy. These were people who were not merely coming to terms with the military-industrial complex but enthusiastically embracing it.

## History of the arms industry

Until the mid-70s the apartheid regime had maintained its grip on the country chiefly by the use of civilian police and intelligence services. But the advent of pro-Soviet regimes in Angola and Mozambique in 1974/5 persuaded the government that it faced a serious external military threat. In 1978 the premiership was taken over by P.W. Botha, whose links were with the armed forces rather than with the security services, and from then on military expenditure rapidly increased. A state entity, the Armaments Corporation of South Africa (Armcor) was charged with the task of equipping the forces with modern weapons. This was not easy, as a UN arms embargo, promulgated in 1964, was made mandatory in 1977. However, the voluntary ban had been more or less ignored by France, which supplied Mirage fighters and Daphne submarines, and even the mandatory ban was ignored by Israel, which helped South African engineers to update the somewhat antiquated Mirages, to develop sophisticated missiles and even to produce and test nuclear weapons. There was also some leakage of military equipment and, more importantly, of technology from the United States (see page 9).

South Africa had had a small arms-producing capacity since the Second World War, and it did not lack scientists and engineers who, with a little foreign help, could respond to the challenge of the embargo and substitute local manufacture for imports. Generally it proceeded by acquiring specimens of foreign equipment, sometimes through third parties, and then applying its skills to their improvement. In fact, the industry boasted of being 'a world

leader in the field of upgrading outdated systems'.<sup>3</sup> Thus South Africa's Olifant tanks were basically old British Centurions which had been bought from India. Its Cheetah fighters, just coming into production as the regime came to an end, were Mirages that had been improved with Israeli help. An Italian advanced trainer was the prototype of the Impala, while French Panhard armoured cars were developed as South African Rooikats, and the French Puma helicopter emerged as the Rooivalk (Red Falcon). By the end of the apartheid era local industry was producing a fairly full range of reasonably efficient weaponry. In certain areas, notably mine-protected vehicles, guided missiles and long-range artillery, it had products of world class.

However, external sanctions undoubtedly set limits to South Africa's war-making capacity. Early in 1988 the SADF suffered a defeat at the hands of Angolan and Cuban forces in the battle of Cuito Canavale – an event which, by denting the reputation of the military, certainly contributed to the unwinding of the regime. And the main reason for the setback was that control of the air had been lost; South Africa's fighters were not a match for Angola's MiGs. More obvious was the decline of the Navy, which had ceased to be a 'blue-water' fleet, possessing only a few coastal patrol craft in addition to three ageing submarines.

Military expenditure reached a peak of R10bn in 1990. Under the transitional regime of F.W. de Klerk, between 1989 and 1994, it was cut by 55 per cent in real terms, and the arms industry likewise lost more than half its 160,000 workers. All the same, the industry inherited by the new regime was a significant economic power, contributing about 4 per cent of manufacturing output and 1 per cent of GDP, and an even more significant political force.

The bulk of the arms output took place under the aegis of a new state-owned corporation called Denel Pty Ltd which had taken over the production function, leaving Armcor with responsibility for procurement and exports. Denel was a holding company with a number of specialist operating subsidiaries, the most important being Atlas (later Denel) Aviation, which produced Rooivalk and Oryx helicopters and upgraded Mirages; LIW (artillery and small arms); Kentron (missiles, unmanned aerial vehicles and avionics); and Somchem (ammunition and explosives). There was also a significant contribution from the private sector. As many as 1500 firms acted as sub-contractors, but the main players were divisions or subsidiaries of three large engi-

3 SADIA, 'Defence Industry Overview', 25.3.96

neering companies: Altech Defence Systems; Grintek, which was part of Grinaker Electronics (Grintel); and Reunert's Reumech (armoured vehicles) and Reutech (radio and radar).<sup>4</sup> Just before the transfer of power, 50 companies (including Denel) formed the South African Defence Industries Association 'to promote the development of an economically viable, internationally competitive defence industry in South Africa, serving the needs of the SANDF and other international needs for defence equipment and services.' SADIA's conference would be assured by Kasrils in 1996 that 'our local defence industry (was) a national asset'.<sup>5</sup> It is of some interest that he put its contribution to sovereignty, diplomatic status and national pride ahead of its role in providing jobs and maintaining the technological base.

By no means everyone shared his views. The Anglican church, which under the leadership of Desmond Tutu had fronted the legal opposition to the apartheid regime, called for 'the dismantling of the South African arms industry'.<sup>6</sup> Tutu's successor as Archbishop of Cape Town, Njongonkulu Ndungane, has been equally forthright, and Terry Crawford-Browne, a banker with close links to Tutu, has campaigned tirelessly for the demilitarisation of the country. Also influential has been Laurie Nathan's Centre for Conflict Resolution (attached to the University of Cape Town), which has insisted that national security was better promoted by social and economic advances than by military expenditure, and wanted South Africa to commit itself 'to the international cause of disarmament' and to 'reduce its force levels and armaments to the greatest extent possible in the light of the domestic and regional security environment.' That formula, of course, was open to varying interpretations. Within government, the ministers responsible for social programmes and for the economy had every reason to resist expenditure on the military. Among them was Joe Slovo, the former commander of MK who had become Minister for Housing. But Slovo was a dying man, and Joe Modise, now ensconced at Defence, was a very different kind of warrior, a hard man whose administration of discipline in the guerrilla camps was described in an obituary, after his death in November 2001, as 'an extraordinary abuse of power'.<sup>7</sup> Of him it was said that he was 'probably more popular with the SADF than with the MK cadres of which he was formerly commander',<sup>8</sup> and he could well have been the target of the caustic comment of a Mozambican officer: 'Those involved in the armed struggle fall in love with

### **'Those involved in the armed struggle fall in love with weapons; now the ex-guerrillas are looking at beautiful new toys'**

weapons; now the ex-guerrillas are looking at beautiful new toys'.<sup>9</sup>

In the early years of the new regime, idealism, reinforced by financial restraints, kept militarism in check, but the story of the European arms deal is one of the steady strengthening of the forces which act as motors of arms production everywhere: vested interest and national pride, or vanity. In 1997 foreign warships gathered at Cape Town to help celebrate the 75th anniversary of the South African Navy. President Mandela, it is said, was embarrassed by its feeble appearance, and promptly promised new ships.<sup>10</sup> Five years later the first black commander of the SANDF, General Siphwe Nyanda, pointed out that the Army, which was not getting any major new equipment, would be 'the main tool of power projection in the region', but diplomatically agreed that the new aircraft and warships, however useless strategically, would 'add immensely to the prestige of the defence force and the government'.<sup>11</sup>

### **A regional power**

South Africa is far and away the leading African economic power south of the Equator, and even south of the Sahara. It could, if it chose, be the leading military power as well; and the West was eager to enlist it in the cause of reducing the unruly continent to order. As early as March 1995 the UK government was pressing it to 'play a key role in southern African peace-keeping', and so was the government of France.<sup>12</sup> In the following year the United States invited it to join, and lead, a regional peacekeeping force, paid for by the US and Europe but staffed by Africans.<sup>13</sup> These overtures, however, were coolly received. Nothing in the record of the old regime was more criminal than the havoc it had wrought by its interventions in Angola and Mozambique; and Mandela had vowed not to do anything remotely similar. An ill-managed intervention in the Lesotho enclave was a warning against police action on a wider stage. Nevertheless it could not afford to permit instability on its northern borders. The 'Southern African Development Council', at first a purely economic body, acquired an Interstate Defence and Security Committee, chaired by Modise, in November 1994. And gradually the seductive appeal of peace-keeping began to take effect. By mid-1997

4 SADIA Statistics 19.3.96; Kuan-Min Sun, *Issues and Studies* 34 (98) 124-34

5 *Africa Confidential*, 27.3.96

6 *Arms Trade News*, 26.11.93; *Daily Telegraph*, 22.8.94

7 *Times*, 28.11.01

8 *Africa Confidential*, 29.7.94

9 Quoted in *Red Pepper*, June 1995

10 *Natal Witness*, 18.11.98

11 *Jane's Defence Weekly*, 26.6.02

12 *Africa Confidential*, 3.3.95

13 *Jane's Defence Weekly*, 30.10.96

Mandela was stressing the 'regional dimension' of policy and speaking of 'a more meaningful role'.<sup>14</sup> Unlike some other states in the region, South Africa stayed out of the morass of the Democratic Republic of the Congo; but since his retirement as President, Mandela has personally worked tirelessly to mediate between the conflicting parties both there and in Burundi, where he is now supported by a South African infantry battalion – commanded, incidentally, by a white female officer.

The prospect of the beneficent use of force put a trump card in the hands of the military and the arms industry in their efforts to secure a larger share of the nation's resources. Under the new government the decline in real military spending was briefly reversed in 1994 but then continued, albeit at a somewhat slower rate, partly because of pressure from the IMF, which was alarmed at the country's rising deficit. Moreover, most of the available money was now going on personnel (especially the integration of the former guerrillas) and on internal security activities. Procurement of new equipment continued to fall, and by 1997 the complaints of both military and industrial leaders were becoming strident. Armscor was said to be desperate;<sup>15</sup> military officers were reported to be resigning in despair and the industry was no longer training engineers;<sup>16</sup> and the Chief of Staff, General Meiring, addressing fellow professionals in London, said that 'the (South African) Parliament must decide what value it places on the insurance policy provided by an adequate defence machine.'<sup>17</sup> His words have recently been echoed almost exactly by his successor, General Nyanda.<sup>18</sup>

## Arms procurement and arms exports

The ending of the country's isolation in May 1994 had opened up two different opportunities for the military complex. First, it could now – if it had the money – purchase foreign weaponry openly. While the production of major armaments in South Africa had proved feasible it was wildly uneconomic, and it had been embarked on in the later apartheid era only because the regime believed it to be a matter of life and death. For the new government, it made no sense to struggle to make small numbers of warships, warplanes or tanks when the latest models could be procured more cheaply from foreign industries that enjoyed economies of scale. Secondly, the South African arms industry could use its specialist capacities to sell abroad, thus bringing in

valuable amounts of foreign currency and keeping itself in being until the outlook for domestic orders brightened.

Between 1984 and 1993 the UN operated an embargo on arms purchases from, as well as sales to, South Africa; and though it was not mandatory, sales were effectively limited to fellow-pariah states such as Pinochet's Chile, Argentina under the junta and Saddam Hussein's Iraq, together with non-state actors such as Somali clans, Lebanese militias and, it is alleged, Ulster Loyalist paramilitaries. The new government was deeply embarrassed by a hangover from this traffic which became public in September 1994, when a cargo of South African weaponry arrived in Yemen just after the end of a civil war and was impounded by the victors. A Commission set up under Judge Erwin Cameron to investigate this affair was scathing about the conduct of Armscor, and its recommendations for transparency and for strict control over future sales were in the main adopted. The final decision on the licensing of exports was taken out of the hands of Armscor and the Ministry of Defence and entrusted to a high-level committee headed by the Minister for Water Resources, Kader Asmal, who was one of those least favourable to the military. But while Armscor was reformed, it was not, as some had hoped, disbanded. The government saw no objection in principle to the export of arms, so long as the purchasers were of good repute.<sup>19</sup> So far from suppressing the trade it set itself to quadruple the value of sales, to a hoped-for R2bn a year.

For a while virtue prevailed. In 1996 sales to obviously undesirable customers such as Afghanistan, Iraq, Yugoslavia and Zaire were banned. On the other hand restrictions were lifted on Algeria, which was in the throes of civil conflict, and more surprisingly on Israel, whose support for the apartheid regime had made it non grata to the ANC. Other countries, including Iran, Indonesia, North and South Korea, Syria and Turkey, were being 'reviewed'.<sup>20</sup> In fact a large prospective order from Turkey was forgone on account of its treatment of the Kurds – and Mandela declined the award of the Atatürk Peace Prize.<sup>21</sup> On the other hand he announced that he would support the sale of arms to Suharto's Indonesia provided they were not used internally – much the same position as that of the Labour government in the UK.<sup>22</sup> (Suharto had earned credit by supporting the anti-apartheid cause.) A prospective package of sales to Syria fell through because of US opposition, but South African critics alleged that in this and other cases moral arguments were being

14 *Jane's Defence Weekly*, 9.7.97

15 *Daily Telegraph*, 20.6.97

16 *Jane's Defence Weekly*, 23.9.97

17 *Army Quarterly and Defence Journal*, 127 (97) 261-70

18 *Jane's Defence Weekly*, 19.12.01

19 *Independent*, 27.5.94

20 *Jane's Defence Weekly*, 22.5.96

21 *Arms Trade News*, Aug/Sept 1997

22 *Jane's Defence Weekly*, 6.8.97

**[The South African authorities realised that it was no use trying to bargain with individual arms companies. It was necessary to assemble a package deal that would involve the vendor governments and so secure favourable financial terms**

ignored and official guidelines flouted.<sup>23</sup> The trouble with an 'ethical' arms sales policy is that unethical markets are often the most lucrative; and it was therefore argued that it would be better to drop the trade altogether in order to preserve the country's moral authority.<sup>24</sup> This plea, however, had no chance of prevailing over the powerful interests committed to the business.

Ethical or not, the arms trade made slow and erratic progress. Sales rose 34 per cent to R1,325m in 1997, but fell back to R847m in 1998 and climbed only to R1,090m in 1999. South African exporters had certain valuable assets, specifically the G5 155mm howitzer and its self-propelled version the G6 which, with their advanced fire-control systems and projectiles, were as accurate and long-range as any in the world, and were sold in some numbers to Gulf states, India and Malaysia. But for the rest the trade consisted of bits and pieces. The Swiss Army bought mortar fuses, the Algerians unmanned aerial vehicles and anti-tank missiles. Light armoured vehicles, specially protected against mines, were sold to India, to UN peace-keepers and (with US engines) to the US Army. But really large deals were elusive. Particularly disappointing was the fortune of the Rooivalk combat helicopter. This machine, which had been designed for the special conditions of war in Namibia and Angola but became available only after those wars had ended, was a serious candidate for the large UK requirement in 1994/5, worth more than £1bn, but lost out to the US Apache. Thereafter, though there was no prospect of local use, the South African Air Force felt bound to order 12 machines, to get a production line going and raise the confidence of foreign buyers.<sup>25</sup> But to date, though it has been equipped with mostly foreign engines, armour, missiles and electronics, it has won no export orders.

Expectations of major sales were consistently disappointed. A visit by President Mandela to Saudi Arabia in 1997 appeared to have clinched a R7bn deal, mostly for artillery<sup>26</sup>, but a drop in the oil price, and probably more importantly the displeasure of the United States, forced the Saudis to shelve it. Arms sales

were promoted by Deputy President Mbeki on a visit to China and Korea, but with few results.<sup>27</sup> President Mahathir of Malaysia, who was awarded the Order of Good Hope in gratitude for financial help to the ANC, seemed to be on the point of signing a large arms package, including Rooivalks,<sup>28</sup> but this was scuppered by the South-East Asian financial crisis of 1999. Purchases of G5 guns were later resumed, but not of Rooivalks or anything else.

By 1998, when Denel was in the red for the second year running, the South African arms industry was clearly in crisis. It would be rescued, not by exports, but by imports.

## The arms deal

### First approaches

Discussion of arms procurement from abroad, more specifically from the UK, had begun before the transfer of power. In November 1993 there were reports that South Africa might place orders for as many as eight corvettes from the struggling Yarrow shipyard on the Clyde, then owned by GEC, whose usual customer, the Royal Navy, had stopped buying.<sup>29</sup> In the following year a £1bn deal appeared to have been concluded involving the exchange of Rooivalk helicopters and artillery technology for corvettes and Hawk aircraft.<sup>30</sup> When the helicopter purchase fell through, however, the South Africans felt free to look elsewhere. In early 1995 the preferred source of corvettes (now reduced to four) was the Bazan shipyard in Spain, which, being state-owned, was able to offer more attractive 'offsets'. But then in June 1995 the Cabinet, responding to a storm of public protest against such wasteful expenditure, decided to suspend the purchase.

Though it might have been postponed, the project for the creation of a blue-water fleet was not abandoned; and in 1996 the political mood was clearly changing. As in the matter of exports, the initial idealism of the new South Africa was yielding to what some called realism and others military opportunism. The government now launched a 'Defence Review' with extensive consultations which turned into a skilful public relations exercise by the Ministry of Defence. At public meetings 'peaceniks' found themselves outnumbered and outgunned by the 'brass',<sup>31</sup> and it seemed that the idea of a 'strong' South Africa struck a popular chord. By August 1997 Modise had won the political battle; the Cabinet and

23 *Ceasefire*, Feb/Mar 1997

24 'Swords or Ploughshares?', 22.2.2000

25 *Flight International*, 12-18.3.97

26 *Guardian*, 26.7.97; *Mail and Guardian* (Johannesburg), 15-21.8.97

27 *Cape Argus*, 6.4.98

28 *Flight International*, 9-15.4.97; *Guardian*, 24.4.97

29 *Jane's Defence Weekly*, 13.11.93

30 *Observer*, 10.9.94

31 *Ceasefire*, Nov 1996

Parliament approved the principle of a massive modernisation of all three services,<sup>32</sup> and in October 1997 a formal 'request for information' was sent out to eight countries judged capable of supplying corvettes, submarines, light fighters, light helicopters and main battle tanks – the core requirements of the SANDEF.<sup>33</sup> It remained to negotiate the best terms – and to find the money.

In 1995 the then Army commander had remarked ruefully that military expenditure was a function of the threat, which was nil, and of the purse, which was empty.<sup>34</sup> After the usual custom of Defence Ministers, Modise brushed aside the absence of a visible threat with talk of 'unforeseen aggression' and 'defending our freedom in an unpredictable world'.<sup>35</sup> But the purse was still empty. In fact, so far as the military were concerned, it was emptier than ever. R700m was cut from the defence budget at the same time as the government was approving the new procurement programme, and it was reckoned that there was a R4bn gap between the sum demanded by the Defence Review and what the government was actually providing.<sup>36</sup> But the South African authorities now calculated that they could count on the generosity of the suppliers.

They realised that it was no use trying to bargain with individual arms companies. It was necessary to assemble a package deal that would involve the vendor governments and so secure favourable financial terms. At first it seemed that the UK would walk away with the whole prize. In March/April 1997 UK journalists wrote excitedly about a deal worth £1.5–£2bn, the biggest of its kind since the Al Yamamah agreement with Saudi Arabia. By August this had risen to £4bn.<sup>37</sup>

In addition to the four corvettes, the UK hoped to sell South Africa four Upholder class diesel-powered submarines which had been built in the '80s for an Arctic conflict with the Soviet Union. The MoD had been trying to dispose of these now redundant vessels for some time without success (they were among the items touted to Saudi princes by Jonathan Aitken at the notorious meeting in the Paris Ritz in 1994) – and they were now offered to South Africa at the bargain price of £200m, with offsets, having originally cost £930m.<sup>38</sup> However, South Africa's Defence Secretary had caustically observed that a bargain was only a good one if you could afford it.<sup>39</sup> They were eventually sold to Canada instead, and South Africa looked elsewhere – much more expensively – for its submarines.

The Army had declared an urgent need for modern air-defence weapons and a somewhat

less urgent need for tanks. The UK was ready to meet the first requirement with Shorts Starburst or British Aerospace Rapier missiles and the second with Vickers-built tanks – either second-hand Challenger 1s or the new Challenger 2 model.

The South African Air Force wanted a fighter to replace its old Mirages and perhaps also an advanced trainer to replace its Impalas. For the first requirement UK industry – that is to say, British Aerospace – had nothing to offer, since its Harriers and Tornados were approaching the end of their careers and were for different reasons unsuitable. However, BAe had just taken a 35 per cent stake in the SAAB company, marrying Swedish engineering design to the marketing prowess that was the UK company's greatest asset; and SAAB had a state-of-the-art fighter plane, the Gripen, that was about to go into production for the Swedish Air Force but had no foreign customer in prospect. It was hoped that South Africa would place an order for as many as 48 of these planes.

What BAe itself could offer was the Hawk, a versatile and successful machine that was primarily an advanced trainer but could also function as a combat plane, specialising in ground attack. There were hopes of an order for 40 of these. However, at this stage, in early 1997, the South Africans were not sure that they needed such a plane, for they were already acquiring a large number of Swiss Pilatus propeller-driven trainers and it was hoped that pilots could graduate straight from these to the Gripens.<sup>40</sup> Moreover, if they did decide on a jet trainer to bridge the gap they were aware of cheaper alternatives to the Hawk.

By the end of 1997 it was clear that the South Africans would not make themselves dependent on a single supplier but would break up the package so as to distribute its patronage. The auction was now thrown wide open, and prospective sellers included France, Germany, Italy, Spain, Russia, Brazil and Canada as well as the UK. It was also clear that, since there was no real military need for the equipment, its efficiency was very much a secondary consideration. Other things being equal, the successful bidder would be the country that could provide the easiest finance and the most generous offset investments, or 'industrial participation', as these were now called. But other things were not entirely equal, for the deal was also linked with wider questions of foreign policy.

A well-informed commentator, Helmoed-Römer Heitman, has explained that the government's first priority was to secure 'long-

32 *Independent*, 22.8.97

33 *Jane's Defence Contracts*, Oct 1997

34 *Jane's Defence Weekly*, 29.4.95

35 *Independent*, 22.9.97; *Daily Telegraph*, 19.11.98

36 *Jane's Defence Weekly*, 4.6.97

37 *Sunday Times*, 30.3.97 and 31.8.97

38 *Sunday Times*, 29.3.98

39 *Jane's Defence Weekly*, 20.10.96

40 *Jane's Defence Weekly*, 23.4.97

term strategic alliances with our major European trading partners', including 'alliances for our defence industry with internationally successful defence groups'.<sup>41</sup> It was concerned not to offend the most important of its trading partners, the UK, which remained very much in contention, especially after a meeting in London between Thabo Mbeki and Tony Blair, who promised to seek better access for South African goods in the European Union.<sup>42</sup> Spain, on the other hand, despite its large promised offsets, was soon out of the running, partly, it is said, because it was obstructive in that matter, and the prospects of French arms exporters were also not improved by their country's commercial stance. Russia was also excluded, mainly because of its poor record in after-sales service. The Germans, on the other hand, had begun to take an interest in South Africa's naval requirements after a visit from Mbeki in the spring of 1996,<sup>43</sup> and it was they who landed the orders for corvettes – or frigates as they were now sometimes described – and submarines.

### The non-participant

The Europeans were here almost uniquely fortunate in the conspicuous absence of their most formidable competitors, the arms companies of the United States. This was not an accident. There are signs that in the New World Order the management of Africa has been assigned to Europe. Also there were historic impediments to a close relationship between the United States and South Africa. US policy towards the apartheid regime had been highly ambivalent. Liberal opinion as well as the African-American lobby had pushed it towards hostility, but geopolitics, the fear of a Communist take-over of a mineral-rich country at the junction of the Atlantic and Indian oceans, had made it in practice a supporter. And the new democratic regime, which had Communists in high places, was regarded in Washington with deep suspicion. Mandela insisted on maintaining friendly relations with Iran and Libya, which had helped in the liberation struggle, and at the beginning of 1997 he was defiantly pushing the sale of highly sensitive equipment to Syria.<sup>44</sup> So the Americans had some reason to fear that any arms sold to South Africa might end up in undesirable hands.

The US government had blocked the sale of Rooivalk helicopters to the UK in 1994 by refusing to let them be armed with the US missiles that the RAF deemed essential. It was acting partly in the immediate interest of

### The Europeans were here almost uniquely fortunate in the conspicuous absence of their most formidable competitors, the arms companies of the United States

Boeing, makers of the rival Apaches, but also because a thriving South African arms industry was not perceived to be a good thing. Later it threatened to veto the sale of Gripens, which have US-designed engines, though it eventually relented.

Even after the change of regime, Armscor was actually being prosecuted in a Pennsylvania court for the alleged theft of military technology in the 1980s and its transfer to Iraq. This was rather bizarre, for there is little doubt that elements in previous US administrations had deliberately used South Africa as a conduit for the arming of Saddam Hussain. That was how South African industry had originally acquired the know-how which went into its high-quality guided missiles and long-range artillery.<sup>45</sup> Two hundred of its G5 guns had indeed been sold to Iraq in the late eighties.<sup>46</sup>

The Syrian arms deal was quietly dropped in January 1997, and so, not by coincidence, was the long-drawn prosecution of Armscor,<sup>47</sup> the case being settled by the payment of a £1m fine. The Americans, however, clearly regarded South Africa as being on probation, and did not lift their embargo on arms sales until the following year. (As in the apartheid era, however, Canadian subsidiaries of US companies were exempt; Bell Textron's offer of helicopters counted as a Canadian bid.) The US then made a rather half-hearted attempt to enter the procurement competition, offering used equipment (Abrams tanks, F-16 fighters) at knock-down prices or even free. By then it was too late, for negotiations with European suppliers were far advanced.

In any case, however, the US would not have been a preferred bidder, for its suspicions of South Africa were fully reciprocated. ANC supporters had not forgiven its backing for the old regime, and they were also fearful of its future influence. Modise reportedly believed that arms purchases from the US would give it leverage over the country's foreign policy.<sup>48</sup> And indeed the offers were made primarily 'to draw South Africa into Washington's client circle'.<sup>49</sup> In its early days the Mandela government had certainly aspired to a degree of both strategic and economic independence, in loose alliance with other non-Western powers. This had been revealed to be a chimera, but if South Africa had to be a client it would rather be dependent on European countries, which

41 *Mail and Guardian* (Johannesburg), 16.12.01

42 FCO briefing, 25.11.97

43 *Ceasefire*, 16.11.98

44 *Ceasefire*, Feb/Mar 1997; *Daily Telegraph*, 17.2.97

45 *Africa Confidential*, 3.3.95

46 *SIPRI Yearbook 1995*, Oxford University Press, 1995

47 *Africa Confidential*, 31.3.97

48 *Flight International*, 6-12.5.98

49 *Jane's Defence Weekly*, 31.3.98

could be played off against one another, than on the remaining superpower. A highly placed source actually said that the real purpose of rearmament was to deter a US attack – or, as he put it, to be able to ‘give the Americans a bloody nose’.<sup>50</sup> The promulgation of the Bush Doctrine has made that apprehension perhaps not quite as far fetched as it seemed at the time; what remains absurd is the idea that, if the US were to decide on regime change in South Africa, it would be scared off by three submarines, four corvettes and a squadron or two of fighter planes.

### The successful suppliers

In February 1998 the President told Parliament that it was now possible to start re-equipping the SANDF without strain on the budget and with benefit to the economy.<sup>51</sup> But though the argument of principle had been decided in favour of the military, there was still infighting within the government as the keepers of the purse strove to limit the ambitions of the Ministry of Defence. There were also protracted negotiations with the potential suppliers, whose evident eagerness enabled South Africa to drive a series of hard bargains.

By the late summer of 1998 the outlines of the deal were becoming clear. The Army’s requirements were dropped from the current programme altogether. A military think-tank had pointed out that for its actual and prospective tasks – the enforcement of border controls and perhaps regional peacekeeping missions – it needed light weapons, radio, transport and well-trained troops, not high-tech armament and certainly not a fleet of 108 main battle tanks.<sup>52</sup> The suspension of the tank order was one of a series of disappointments that brought low the once mighty firm of Vickers, though if an order had been placed at that time it would probably have been for French Leclercs, not Challengers.

The Air Force requirement survived, but only in part and after intense debate. Did South Africa really need as many as 48 fighters? The answer was no; the order was progressively cut from 48 to 38 and then to 28 planes. Did it need two different machines, a jet trainer as well as a fighter? The answer was yes; direct transfer from a propeller trainer to a modern jet fighter would be too much to expect of the new generation of pilots. A ‘lead-in fighter-trainer’ (LIFT), such as the Hawk, was essential.<sup>53</sup> Was it then necessary to order dedicated fighters as well? Would not a dual-purpose plane, an advanced trainer that could also be a combat aircraft, meet South Africa’s

needs? Evidently not; though reduced in numbers, the fighter requirement stood, and the only real question was whether the choice would fall on the latest version of the French Mirage or the Anglo-Swedish Gripen. In the event the decision was for the ultra-modern Gripen. Besides its proclaimed (though untested) technical merits, the Gripen enjoyed political and financial advantages. The ANC had not forgotten the help and sympathy it had received from Sweden in the dark years. Probably more important, like most of Swedish industry SAAB is part of the Wallenberg empire, and so could hold out the prospect of purchases and investments by a range of apparently unrelated manufacturers. And that was in addition to the benefits derived from its new UK connection.

It remained to choose the LIFT plane. Some argued that, since this would not have a combat role, there was no need for an expensive dual-purpose aircraft such as the Hawk.<sup>54</sup> There were at least three other candidates:<sup>55</sup> the MB339, a product of the Italian AerMacchi company which had provided South Africa with the design for its Impalas, the Czech L-159, and a newly-designed product of the German company DASA, known as the AT-2000. The Italian and Czech planes were much cheaper than the Hawk, but were considered to be rather dated (yet the Hawk was basically a design of the ‘70s), and it was doubtful whether the Czechs could supply adequate offsets. (A new plane developed by AerMacchi in collaboration with the Russian company Yakovlev was, by contrast, rejected as unproven.) The German plane was only a design study, which had not been ordered even by the Luftwaffe; in fact DASA hoped that South Africa would not only be the launch customer but also a partner in the plane’s development, and that was felt to be too large an undertaking.<sup>56</sup>

The arguments are complex and partly technical, but the upshot is clear. South Africa had chosen the most expensive possible package: both a high-tech specialised fighter for which there was no reasonably conceivable opponent, and also a trainer with combat capability but no prospective combat role. This was the combination most profitable to the UK, but it is difficult to argue that it was the one best suited to South Africa. The decision to order Hawks (24 of them, not 40) came late and was taken by politicians, who are alleged to have altered the specifications to ensure the Hawk’s victory.<sup>57</sup> Suspicion of corrupt influences was natural (see page 15) but in this case unnecessary; for broader considerations of for-

50 *Coalition for Defence Alternatives*, 3.2.99

51 *Jane’s Defence Weekly*, 18.2.98

52 *Daily Telegraph*, 20.6.97

53 *Jane’s Defence Weekly*, 4.3.98

54 *Jane’s Defence Weekly*, 4.3.98

55 *Jane’s Defence Weekly*, 13.5.98

56 *Jane’s International Defence Review*, Feb 1998; *Flight International*, 10.6.98

57 *Guardian*, 28.5.01



*Agusta Westland Super Lynx helicopter on display at Farnborough 2002 (left); SAAB Gripen fighter (right)*  
CAAT; BAE Systems

eign policy pointed to the Hawk. The UK is the most important investor and trading partner, and the negotiators were reluctant to leave it with only a part-share of the Gripen contract. The knock-on from that decision was that Italy needed to be consoled by the award of the light helicopter contract, in preference to Canadian and Franco-German machines. Here again irregularities were alleged but were probably only a subsidiary factor.

Germany scooped the naval orders, except that the helicopters to be carried on the frigates would be made by Westland at Yeovil, and the electronics would be supplied by the French company Thomson-CSF (now Thales). That could not conceal the fact that France was the main loser, having bid for the submarine, fighter and helicopter contracts and won none of them. It was unlucky in that the tank order, for which it was favourite, was dropped from the package.

In the naval programme, too, there was evident 'procurement creep'. The Navy's requirement had been for corvettes (vessels usually under 2,500 tons) but the ships ordered were frigates of 3,600 tons. It is true that the boundary between these classes of warship is not quite clear-cut. It was claimed that frigate-type hulls were needed to withstand the rigours of the Southern Ocean and that the armament was more like that of corvettes. Even so, ships armed with Exocets as well as South African Umkhonto guided missiles seem something of an extravagance, given that their stated function was fishery protection. Likewise, if South Africa decided that it must have submarines, it did not need to buy brand new ones. The UK's Upholders had been on offer at a far lower price, and both the French and the Italians had vessels ready for sale.

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## Financial arrangements

The announcement of this programme in November 1998 was by no means the end of the story. Tony Blair visited Pretoria in January 1999 and was reported to have 'clinched' the deal by the promise of £4 billion's worth of UK investment in return for the arms sales.<sup>58</sup> But in fact there was still considerable opposition. The veteran ANC sympathiser Sheena Duncan professed herself 'astonished' by the deal. The churches and their allies continued to protest, and the opposition Pan-African Congress declared against it. Probably more important was worry about the cost. Though the Cabinet was claimed to be united, it was obvious that the Finance Minister, Trevor Manuel, was less than happy, and was insisting that the deals should be 'affordable'<sup>59</sup>; and the financial community had let it be known that, while it accepted the principle of rearmament, it considered the programme too extravagant.<sup>60</sup> Accordingly a senior ANC politician, Jayendra Naidoo, was commissioned to carry out a review. The Department of Finance's 'affordability team' pointed out that the claim of R110bn offsets was inflated by the inclusion of hoped for secondary benefits such as 'regional development' and 'black empowerment'.<sup>61</sup> A more realistic figure of R70bn was now adopted. The Naidoo review proposed and the government appeared to agree that for the time being the purchases should be scaled down from R30bn to R21bn. The Lynx helicopters would be eliminated and there would be immediate firm orders for only 9 Gripens and 12 Hawks; the remaining 19 Gripens and 12 Hawks would be deferred until 2004 and would be ordered then only if the promised offsets had been delivered and if the economy was in good shape. The order for Italian helicopters would be cut from 40 to 30.<sup>62</sup> These concessions, however, were no more than tactical. The government let it be known that the Lynxes would be re-instated later (without them, the frigates would lose much of their efficacy) and that the deferred aircraft orders could be confidently expected to go ahead. Everyone continued to talk of a R30 billion

58 *Sunday Business*, 3.1 and 10.1.99

59 *Financial Times*, 18.1.99

60 *Business Day*, 18.11.98

61 *Business Day*, 28.8.99

62 *Financial Times*, 16.9.99

package.<sup>63</sup> The order for the second batch of Hawks was in fact confirmed in April 2002 and the Lynxes have now been reinserted.

The haggling over terms continued through most of 1999, supported by hints that South Africa might after all buy American, or that either the Hawk or the Gripen orders might be suspended. But in September the Cabinet approved the whole package, including firm orders worth R21.3bn with the prospect of another R10bn to come.<sup>64</sup> Detailed contracts for the warships, submarines, aircraft and helicopters were signed between then and the following January.

### Loans

By this time Manuel and the Treasury had been won over, claiming with some justice that they had 'secured unprecedentedly favourable arrangements'.<sup>65</sup> Payment was to be spread over 14 years, and the purchases (i.e. the total programme minus local expenditure) would be funded by low-interest loans, totalling R29.3bn or \$4.8bn, from UK, German, French and Italian banks on terms which have not been disclosed but were said to be 'highly attractive to the South African government'.<sup>66</sup> The generosity of the banks (mainly Barclays and Commerzbank) was made possible by support from the UK's Export Credits Guarantee Department and similar organisations in the other countries.

More information is available about the export credit support for this deal than is usually the case. For the first time, the UK's ECGD Annual Report for 2000/1 lists guarantees issued during the year covered. The trainer/fighter aircraft for South Africa were covered by a guarantee of £1,679.9 million. This is 49% of the total for all the guarantees issued in that financial year. Although there is no official confirmation, the amount of the cover seems to indicate it covers all fifty-two aircraft.<sup>67</sup>

Further details emerged as a result of an application being pursued by objectors to the deal in the South African courts. Responding to the objectors' affidavit, the South African Minister of Finance listed the following foreign loan agreements entered into by his government in January 2000 in relation to the military deals:<sup>68</sup>

- a) with AKA Ausfuhrkredit-GesellschaftmbH, Commerzbank Aktiengesellschaft and Kreditanstalt fur Wiederaufbau and a further agreement with Societe General and Paribas with respect to the frigates

### Tony Blair visited Pretoria in January 1999 and was reported to have 'clinched' the deal by the promise of £4 billion's worth of UK investment in return for the arms sales

- b) with AKA Ausfuhrkredit-GesellschaftmbH, Commerzbank Aktiengesellschaft and Kreditanstalt fur Wiederaufbau with respect to the submarines  
 c) with Barclays Bank plc and the UK's Secretary of State (presumably of Trade and Industry) acting for the ECGD in respect of the Gripens and Hawks  
 d) with Mediocredito Centrale SPA with respect to the helicopters.

According to the South African Finance Minister, export credit agency (ECA) finance accounts for all the imported content; the non-UK export credit agencies had matched the 'attractive options' offered by the ECGD; and what the 'finance package finally achieved has greatly pushed out the boundaries of ECA defence financing and is probably unique'. The ECA finance arrangements offered 'markedly preferential rates'.<sup>69</sup>

The South African Finance Minister has argued that he had three choices regarding the arms procurement package: he could raise taxes, build the amount needed into his government's normal borrowing requirements, or he could use ECA finance arrangements. By picking the last-mentioned he argues he has made savings of over R600 million. However, a number of organisations within South Africa believe their government had a fourth option. It did not have to embark on its massive weapons procurement programme in the first place.

The South African government claimed in December 1999 that the impact of the purchases on the budget would be 'relatively attenuated and entirely manageable'.<sup>70</sup> 'Relatively' is always an evasive word, and it became clear that the financial drain would be a heavy one. The Naidoo team had warned of a shift away from social expenditure, and of 'mounting economic, fiscal and financial difficulties'.<sup>71</sup> In February 2002 the government estimated that the total cost would be R52.7bn, or about R3.7bn a year on average over the life of the programme. That meant that the purchases would increase military spending by about a third. It was calculated that the defence budget, including a Special Defence Account that was a device inherited from the old regime, would rise by 15 per cent per annum between 1999 and 2004, compared with annual rises of only 5 per cent in inflation

63 *Financial Times*, 17.9.99

64 *Jane's Defence Weekly*, 22.9.99

65 *Financial Times*, 17.9.99

66 *Jane's Defence Weekly*, 22.9.99

67 ECGD Annual Report and Resource Accounts 2000/01

68 Response of South African Minister of Finance to ECAAR-SA class action, Mar 2002

69 Response of South African Minister of Finance to ECAAR-SA class action, Mar 2002

70 *Defence Systems Daily*, 3.12.99

71 ECAAR-SA, 2001

and 6.5 per cent in the health budget. It is perhaps not surprising that the government has found it so difficult to spend money on anti-retroviral drugs.

The difference between the R31bn figure of 1999 and the nearly R53bn of the 2002 estimate was accounted for partly by inflation and interest payments, but there was also a problem over the rate of exchange, which had become sharply adverse. In 1999 the rand stood at 6 to the dollar, but by early 2002 it had fallen to 10, and there was a similar decline in its sterling value, from 10 to over 15. There was stark disagreement over the impact on the cost of the programme. Projecting the fall of the rand into the future and allowing for preferential financial costs, critics calculated that by 2010 the rand cost would have risen to 287bn!<sup>72</sup> That was doubtless a worst case scenario (in fact the fall of the rand was checked and to some extent reversed during 2002); but independent testimony suggests that 'the falling rand is substantially raising the cost'.<sup>73</sup> Trevor Manuel insisted, however, that the loan contracts he had negotiated were proof against exchange-rate risks and that in dollar terms the total cost would remain at \$4.8bn.<sup>74</sup>

## Offsets

Be that as it may, the warships and warplanes were not being given away, and \$4.8bn would have bought any number of hospitals, drugs, schools, houses and waterworks. So, leaving aside a military case that it would be charitable to call dubious, judgement on the programme has to turn on the promised offset expenditure, which, if pledges were taken at face value, would bring in more than twice as much money as was spent on the arms. When the programme was initiated in October 1997, the South African Department of Trade and Industry was demanding 80 per cent offsets and the Ministry of Defence wanted at least 50 per cent and 'if possible' 100 per cent. By this time, such was the buyers' market for arms, offsets of 100 per cent on military contracts (on all other kinds they are illegal) were beginning to be seen as normal, but rewards of 200 per cent would have seemed to most bargainers to be in the realm of fantasy. The government of Hungary has recently extracted 110 per cent in return for its lease of Sweden's Gripens. So it was with some reason that the *Economist*<sup>75</sup> congratulated the 'ANC hagglers' on having 'squeezed unusual bargains'. It nevertheless remarked that 'spending so much on high-tech weaponry, even at a discount, seems extravagant'.

Offsets, now called 'industrial participation', can take various forms. The simplest is a barter deal, whereby commodities are exchanged for arms. The Spanish bid for the corvette contract in 1995, for example, had been supported by an offer to buy South African coal and fish. In the present deal, purchases would consist mainly of industrial components, such as converters (using South African platinum) and other parts for Swedish cars, railway equipment, avionics for civil aircraft. Also included under this head would be the work done by South African subcontractors on the purchased ships and planes, and the sale of parts for other UK and Swedish arms products, such as display units for Sweden's own Gripens and gearboxes for Rolls-Royce aero-engines.

The other kind of offset was investment in South African industry, both military (Defence Industrial Participation, or DIP) and civil (National Industrial Participation, or NIP).

When the deal was done in September 1999 the promised offsets were summed up as follows, in billions of rands:

|              | Investments | Technological transfers | Purchases | Total |
|--------------|-------------|-------------------------|-----------|-------|
| Military     | 4           | 8                       | 7         | 14.5  |
| Non-military | 24          | 31.5                    |           | 55.5  |
| Total        |             |                         |           | 70    |

It does not appear that these pledges had any contractual force, but the South Africans retained the sanction of refusing to proceed with the second phase of the purchases if they were not fulfilled. Although by mid-2000 the Department of Trade and Industry was warning people not to expect much in the way of results for several years,<sup>76</sup> there is no reason to doubt that the commitment will in some sense be honoured. Indeed, by August 2002 the NIP programme was ahead of schedule, with slightly over half the obligation already committed. The question was: what did the programme actually mean? Critics allege that many of the 'offset' purchases were raw materials that would have been exported anyway, and this may be true of some of the investments. Despite their disappointment over the corvettes, the Spaniards have gone ahead with planned investment in South African fisheries. So there are some obvious questions. If the investments are an optimal use of the foreign companies' funds, why are they made conditional on the sale of arms? If they are not, why are they being made at all – especially by companies not involved in the arms deal? Are the developments chosen in the light of South Africa's needs or in those of the investors?

72 ECAAR-SA, 2001

73 *Jane's Defence Weekly*, 19.12.01

74 *Business Report*, 16.11.01

75 *Economist*, 18.9.99

76 *Defence Systems Daily*, 27.7.00

The largest single investment was the project for a new stainless steel plant at Coega on the coast of the Eastern Cape. German steel and engineering companies involved in the frigate and submarine consortia proposed to invest R6bn in this scheme, which came under fierce attack. A new deep-water harbour would have to be constructed, which will cost the South African government R1.5bn and would be both redundant and environmentally damaging. The steel plant would also be superfluous, since South Africa already produces far more than it can consume and the international market is glutted. The project was capital-intensive and would generate no more than a thousand permanent jobs.<sup>77</sup> If this were typical, the number of new jobs generated by the arms deal would not be 65,000 but around 12,000. Any increase in employment, it is true, would be valuable in a poor region that happens to be in the heartland of President Mbeki, who as deputy president enlisted the interest of the German government. The steel plant was eventually dropped, but the offset credits may be transferred to a French aluminium plant which would depend on massively subsidised electricity and water.

Some other plans may be more genuinely useful, but have been wildly overstated. Nothing could be more vital to South Africa than a supply of cheap condoms, and a condom plant is on the German list. It is valued for offset accounting purposes at €72.6m though the actual investment is to be €15m. Italy gains \$13.2m credit for an actual investment of \$1.3m in a mohair factory, \$84.7m for a mere \$5m in a jewellery works. One of the main Anglo-Swedish projects is the upgrading of the Harmony gold refinery. This will produce gold slightly more cheaply than the existing Rand refinery, but the companies will claim as offset, not the difference, but the value of the full output at \$300 an ounce. By such means an outlay of \$70m will enable BAES and SAAB to meet their combined obligation of over \$2bn in investments.<sup>78</sup>

Dr Neil Cooper's prediction in 1998 that the benefits from offsets would be 'ultimately non-existent' may have been too sweeping, but advocates of the deal have certainly overstated them by a very wide margin. Indeed the government itself seems to have had doubts, since it announced in September 1999 that 'this is not a job-creation but a defence procurement programme'.<sup>79</sup> In fact the employment argument is based on a fallacy, since it ignores the opportunity cost of the programme. It is necessary to ask, not just how many jobs may be created directly or indirectly by arms procure-

ment, but how many could have been created if the money had been spent in other ways. Arms production is not labour-intensive, nor are steel-works or other spectacular industrial developments. Critics pointed out that on the official projections the jobs generated by the offset programme would cost R1.7m each, and contrasted this with the 42,000 people employed by the 'Work for Water' project, run by a department whose whole budget was only R2.1bn.

Military offsets (DIP), at R14.5bn, were only a small part of the total, and of these only R4bn were scheduled investments, yet it was these that were the key to the whole operation. By 1998 it had become clear that the South African arms industry had no future as an autonomous player on the international stage. The only way to keep the industry going, as Modise explained early in 1999, was to find 'strategic partners'.<sup>80</sup> In fact the government had already decided to sell 30 per cent of Denel's Aviation and Kentron subsidiaries (the most marketable parts of the state corporation), with BAE as the most likely buyer.<sup>81</sup> The arms purchases were seen by some as a means of attracting the investment that would enable the South African industry to gain 'a solid foothold in the global defence market'.<sup>82</sup>

## Europe takes over

Foreign involvement in the industry actually began in September 1993, when the UK's Alvis company entered into an agreement with Reunert to market Mechem's Mamba and Ysterarend armoured cars.<sup>83</sup> A version of the latter, known as the Scarab, was manufactured in the UK and used in the Yugoslav wars. Later the Vickers company acquired a 75 per cent stake in the private armoured vehicle manufacturer Reumech, which emerged as 'Vickers OMC', and in 2002 Vickers was itself taken over by Alvis.

British Aerospace (now BAE Systems) entered South Africa in 1996, when it awarded contracts to Grinel and AMS for the supply of radios and other equipment for its Hawks.<sup>84</sup> The deal was described as a 'pathfinder', showing that South African companies' 'niche' capacities made them 'ripe to break into the international market'.<sup>85</sup> In the following year BAe made its first actual investment, taking 20 per cent of Advanced Technologies and Engineering (ATE), which would supply avionics to South Africa's Hawks.<sup>86</sup> A little later it bought a small but high-tech company called Paradigm Systems Technology, purveyor

- 77 Coalition for Defence Alternatives 15.10.99; *Times*, 3.8.00
- 78 *Mail and Guardian* (Johannesburg), 8.8.02
- 79 *Financial Times*, 19.9.99
- 80 *Jane's Defence Weekly*, 17.2.99
- 81 *Flight International*, 25.11-1.12.98
- 82 *Jane's Defence Weekly*, 25.11.98
- 83 *Jane's International Defence Review*, Sept 2002
- 84 *Southscan*, 19.7.96
- 85 *Finance Week*, 18-24.7.96
- 86 *Ceasefire*, Feb/Mar 1997

**Rather than dismantle the [arms] industry in favour of more useful forms of production, the government decided to preserve it as an annexe of European companies**

of software for the Eurofighter. Its rivals and allies followed suit. Early in 1998 the French company Thomson-CSF (now Thales) bought 50 per cent of Altech Defence Systems (ADS), appointing a French chief executive.<sup>87</sup> In the following year the Swedish company Celsius, which was about to merge with SAAB, took 49 per cent of South Africa's Grintek, while DASA, the German component of the European giant EADS, bought 33 per cent of Reutech Radar.<sup>88</sup> In May 2002 a company called Turbomeca Africa was established for the local manufacture of aero-engine components. It was a 49:51 per cent arrangement between Denel Airmotiv and Turbomeca, which was itself a joint subsidiary of Rolls-Royce and the French aero-engine company SNECMA. Turbomeca celebrated the deal with the rather incautious boast that it (that is, SNECMA) had been supporting the South African Air Force for over 25 years, implying that links with the apartheid regime were now a cause for congratulation rather than shame.<sup>89</sup>

Meanwhile talks between Denel, which like other state corporations was scheduled for at least partial privatisation, and BAE Systems were proceeding slowly. They did not gain momentum until September 1999, and the Gripen purchase was explicitly the precondition for their resumption.<sup>90</sup> The result was the Strategic Agreement arrived at in May 2000, whereby BAE Systems promised work-share of up to R2.5bn in addition to technological transfers worth R1.5bn. That was only a foretaste of the gains that were expected to follow the actual purchase of a stake in Denel's business. The UK company would then provide Denel with design, manufacturing and management skills, assistance with research and development, and above all with marketing. In return it would gain access to Denel's special capabilities in artillery and ammunition, helicopters, missiles, unmanned aerial vehicles and optronics.<sup>91</sup> In the first instance it was proposed to sell only 30 per cent for a reported price of a mere R375m.<sup>92</sup> It was now being said, however, that the government was anxious to dispose of its entire holding in the arms industry, except for a golden share to protect vital national interests, similar to the one that the UK government holds in BAE Systems. Earlier, the government had let it be known

that it intended to hang on to the specialist subdivision Kentron as well as the ammunition plants.<sup>93</sup> But this was proving impractical. Kentron had designed a highly advanced air-to-air missile called the A-Darter, which was meant to be installed in South Africa's Gripens, but it could not afford to develop it without a foreign partner.<sup>94</sup> However, in April 2003 the South African government announced that the long drawn out negotiations with BAE Systems had been broken off.

Nevertheless, the dream of an independent South African arms industry had faded. But rather than dismantle the industry in favour of more useful forms of production, the government decided to preserve it as an annexe of European companies. In the big procurement deal it was buying not only, or even mainly, planes and warships but admission to a corner of the Western-dominated international arms industry.

In its own terms, the policy has shown signs of modest success. 'After ten years of cuts', reported one observer in 2000, 'the arms industry is finding its feet'.<sup>95</sup> Its exports rose from R1.09bn in 1999 to R1.7bn in 2001, and there was clearly more to come. As a direct result of the deal Denel's explosives division won an order worth R1.5bn for propellant; the normal supplier, Royal Ordnance, a subsidiary of BAE Systems, stood aside to allow this. Denel also hoped that its high-powered artillery projectiles would be adopted by NATO and supply the ammunition for the UK's new howitzers. The private sector of the arms industry was also showing gains. African (formerly Altech) Defence Systems, now partly French-owned, would provide much of the purchased frigates' electronics. Grintek Avitronics, in which SAAB had invested heavily, would help to equip not only South Africa's but also Sweden's own, far more numerous Gripens. With a German input, Grintek hoped to invade the world market for electronic warfare equipment. The financial gains from these transactions, however, would be diluted by the share of profits accruing to the foreign investors, and the employment gains would mainly be to the benefit of highly skilled engineers, most of them inevitably white, and had little relevance to the unemployed masses. But there was a small number of non-white individuals who were certainly doing well out of the deal.

### Corruption?

The sheer inappropriateness of most of the purchases naturally led to suspicion of corrupt

87 *Jane's Defence Weekly*, 18.3.98

88 *Flight International*, 18-24.8.99

89 *African Armed Forces*, May 2002

90 *Flight International*, 29.9.99

91 *Jane's Defence Weekly*, 22.5.02

92 *Defense News*, 20-26.5.02

93 *Jane's International Defence Review*, Mar 1998

94 *Jane's International Defence Review*, July 2002

95 *Jane's Defence Weekly*, 23.8.00

inducements; and by September 1999 the opposition Pan-African Congress had acquired enough evidence to force a public investigation. Its parliamentary motion tabled on 9 September asserted that ‘the absence of logical explanation, total lack of transparency about offset deals and the arms industry’s notorious reputation makes South Africa’s weapons purchase programme a matter of grave public concern’. Parliament’s Public Accounts Committee agreed that there was ground for enquiry by the government’s special investigation unit headed by Judge Willem Heath, among other agencies. (The ANC leader on the Committee, Andrew Feinstein, was removed by the party’s Chief Whip, Tony Yengeni, who would himself later be indicted.) Judge Heath, after complaining of government obstruction, was furiously attacked in a broadcast by President Mbeki himself; and the Constitutional Court eventually ruled that as a sitting judge he could not properly head a state agency.<sup>96</sup>

However, the controversy would not go away. The Auditor-General, Shauket Fakie, ruled that proper tendering procedures had not been followed, especially in the matter of the Hawk contract, and recommended further enquiry into accusations of nepotism. The most thorough investigation was that of the National Director of Public Prosecutions (NDPP), Bulelemi Ngcuka, whose team, known as the Scorpions, was reckoned the most muscular of the anti-corruption agencies. The Auditor-General’s report, backed by the Public Protector and the NDPP, appeared in November 2001 after it had been ‘reviewed’ by the government. As published, it described the government’s intervention in the aircraft contract as ‘unusual’, but not ‘unlawful or irregular’. It also noted that only the unsuccessful Spanish tender for warships had complied with key criteria.<sup>97</sup> It was at once dismissed by Judge Heath as ‘a whitewash’ and ‘a farce’.<sup>98</sup> Nevertheless the powers that be were not left unscathed. There were high-level arrests, and the behaviour of Joe Modise, who had retired two years earlier and died very soon after the report, was described as ‘highly undesirable’, in that he had invested in contractors who stood to benefit from the deal.<sup>99</sup>

It is important to distinguish between different kinds of activity that might qualify as ‘corruption’. In the first place there are corporate payments designed to generate goodwill in influential quarters. Under this head come several outlays by BAE Systems, ranging from £500,000 for the training of former guerrillas in business methods to £30,000 for the re-

### The sheer inappropriateness of most of the purchases naturally led to suspicion of corrupt inducements

writing of history textbooks. Such sweeteners are probably within the range of normal business practice, and could be compared with the same company’s contribution to the Millennium Dome. At the other extreme is simple bribery of powerful individuals in return for political favours. Thus the South African representative of the European arms conglomerate EADS, which obtained a small slice of the action, was found to have been giving large discounts on Mercedes cars to as many as 33 MPs and others.<sup>100</sup> (The German component of EADS is owned by the Daimler company). The most prominent casualty of this operation was Tony Yengeni, a very popular ANC politician who was the party’s Chief Whip and at the relevant time chairman of the parliamentary defence committee. (Plea-bargaining allowed him to be charged with fraud rather than the more serious offence of corruption and he has now been sentenced to four years in prison.) Such conduct was of course regrettable – not least because a career was wrecked for small cause – but not really very important. Petty inducements of this kind may perhaps have influenced the details of the arms deal but do not begin to account for it. Much more significant is institutional malpractice resulting from a policy that was in itself defensible.

According to an astute observer, President Mbeki ‘plans a second revolution, whereby the apartheid economy’ (which is still essentially in place) ‘will be overthrown and will be replaced by a modern African, capitalist state based on a skilled labour force and a growing body of black entrepreneurs’.<sup>101</sup> This alludes to the concept of ‘black empowerment’, which needs a little background explanation.

The system of racial domination that was inaccurately called apartheid had two main objectives. The overriding one was to prevent the upward mobility of non-whites and so ensure that no white man could be poor. From 1948 there was also a determination that some Afrikaans-speaking whites should be enabled to become rich, at the expense of the English-speakers who had until then monopolised the top ranks of government and the economy. To this end, state power was used to lever Afrikaners into the civil service and the expanding public corporations and to give them a foothold in big business. By and large, English-speakers were willing to make room

96 *Guardian*, 28.5.01; *Financial Times*, 10.9.99; ECAAR-SA, 26.5.00

97 *Mail and Guardian* (Johannesburg), 9-15 and 16-22.11.01

98 *Daily Telegraph*, 16.11.01

99 *Natal Mercury*, 16.11.01

100 *Daily Telegraph*, 16.7.01

101 *Africa Confidential*, 18.2.00

for them, in return for the continuance of overall white supremacy.

In a sense the new regime repeated this process in reverse. Its ultimate objective, of course, was that non-whites should cease to be poor, but that could be only a long-term aspiration. What could be done in the short term was to ensure that some non-whites could become upwardly mobile, by removing institutional barriers, but also, more positively and more controversially, by using state power to accelerate the formation of a black business class through the selective award of government contracts. By and large, whites made room for the newcomers without much demur, unless they were personally affected. But the problem with all kinds of positive discrimination is that fairness between categories means unfairness towards individuals, in that some people may not get the jobs, promotions, contracts that they personally deserve. And they are then likely to cry foul. What is more, when the strict criterion of personal merit is not observed, the selection of individuals for advancement becomes arbitrary, and the process may descend into nepotism and cronyism.

An informal condition of the arms contracts was that between five and ten per cent of the offset investments should be used for 'black empowerment'. The subcontract work offered by the European manufacturers to South African industrialists was an obvious honey-pot; and it was alleged that fortunes were made there by a group of former MK cadres surrounding Joe Modise.<sup>102</sup> It was hardly surprising that the victorious guerrillas should look to be compensated for their years of exile and hardship, but the rules were undoubtedly bent in their favour. Linked with them was a so-called Asian Muslim 'mafia' around the brothers Shaik. Shamin Shaik, commonly known as Chippy, was the official in charge of arms procurement. His brother Shabir (or Schabir), who had contributed to ANC funds, emerged as the de facto head, along with two of Modise's in-laws, of African (ex-Altech) Defence Systems, a formerly Afrikaner company in which Thomson-CSF had acquired a half interest. Inside information, it was alleged, allowed ADS to revise its bid for the equipment of the frigates, undercutting a rival (white-owned) company, and so landing a contract worth R700m.<sup>103</sup> As a result of the Scorpions' investigations 'Chippy' Shaik, who had not properly recused himself, lost his job and his brother was arrested. Similar accusa-

tions of scandal, involving many of the same players, surrounded the award of the Cell C mobile phone network, in which Saudi capital collaborated with local power-brokers.<sup>104</sup>

Modise and his associates set up 'shell' companies called Ubambo Investments and Futuristic Business Systems (later Conlog) which were heavily involved in the German frigate and the helicopter contracts. The Bell helicopter company of Canada claimed that, being pressed to award subcontract work to FBS, which had little or no manufacturing capacity, it virtuously dropped out of the bidding, while its Italian rival complied.<sup>105</sup> It must be recognised that much of the information about corrupt practice comes from disappointed bidders or from the political opposition, though there is said to have been some whistle-blowing by concerned government supporters as well.

That there was some irregularity and nest-feathering in high places is beyond reasonable doubt. The new Defence Minister, Patrick Lekota, has acknowledged 'some wrongdoing'.<sup>106</sup> But it must be stressed that, unlike some of the UK arms industry's favourite customers, South Africa is not a corrupt dictatorship. It is a democratic society with an elected parliament, a remarkably free press and a responsible civil service, which has made it clear that it will insist on more regular procedures being followed in the future. Whatever might be said about the late Joe Modise, he was a patriotic South African, and his primary motive in pushing for arms procurement was not to enrich his family but to promote what he saw as the national interest. Corruption was a marginal factor in this arms deal. It probably distorted its priorities and raised its cost, but was not its prime mover. Or rather, the corruption that drove it was of a more subtle kind, not financial and personal but arising out of the international power system.

## The sellers

'South Africa will make its own decisions on defence spending'.<sup>107</sup> Quite so; but that does not excuse the government of which Clare Short was then a member for doing its level best to push South Africa's 'defence' spending up. Ever since it came to power in May 1994 the democratic regime has been experiencing a very hard sell from UK and other European arms companies and an even harder one from their governments, especially that of the UK.

<sup>102</sup> *Financial Mail*, 6.5.01

<sup>103</sup> *Sunday Times* (South Africa), 18.11.01

<sup>104</sup> *Independent on Sunday*, 5.3.00

<sup>105</sup> *Guardian*, 28.5.01

<sup>106</sup> *Africa Confidential*, 9.2.01

<sup>107</sup> Clare Short, 16 January 1999

## The merchants

The interest of the arms companies does not at first sight need much explaining. Nevertheless the South African deal has to be seen in the context of the post-Cold War problems of the arms industry (for which see CAAT publication, *The Arms Industry*, Goodwin Paper no.1, Mar 2001). And the UK industry's particular problems must be set in the context of the seemingly inexorable decline of manufacturing in this country. The arms industry survived better than most, because it had a captive customer in the Ministry of Defence. Thus merchant shipbuilding in the UK virtually ceased in the 1970s but at the end of the century four yards were still building warships. The Anglo-French Concorde was almost the final flourish of UK civil aircraft production. Since then, apart from the Avro regional jet, which ceased production in 2002, and the work done by UK subcontractors for companies such as Boeing, the only non-military interest of the UK aircraft industry has been British Aerospace's 20 per cent share in the European Airbus, for which it makes the wings. But the company (BAe, now BAE Systems) survived and prospered as a maker of warplanes both for the nation and for export. It inherited two very successful but rather specialised planes, the Harrier jump-jet and the Hawk fighter-trainer, but for more mainstream aircraft it had to rely on co-operative ventures; the Anglo-French Jaguar of the '70s was followed by the Anglo-German-Italian Tornado of the '80s; and the same group, with the addition of Spain, went on to design the Eurofighter or Typhoon, optimistically christened the EF-2000. The drive behind the Airbus was French, but the UK company and government were the prime movers of the military projects, the Germans being particularly reluctant partners.

Even military manufacturing came under threat in the early '90s, as the UK government, along with others, cut back on procurement in the brief post-Soviet euphoria. British Aerospace was saved by a huge order from Saudi Arabia for Tornados and Hawks, which brought in some £2bn a year for most of the '90s. But that programme came to an end in 1998, apart from a lucrative service contract, and the question clearly arose: what next? The Tornado had proved unsaleable to anyone other than the Saudis and the European sponsors, and it ceased production in 1998. The Eurofighter was still some years from active service and, being designed for dog-fighting over the north European plain, had no great customer appeal in the new era. 630 planes were ordered by the sponsor governments, but

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some of these are now in doubt, and there is no sign of the 600 additional sales on which the companies were originally counting. The Hawk was still finding customers – Australia, for instance, and Bahrain – but the £1bn order from India, which has been in prospect for the past decade and more, has never actually come to pass. In any case, the company could not live by Hawks alone.

An obvious way forward, and one strongly urged by the UK government, would have been to merge its resources with those of its French and German partners. But in November 1998 the company turned away from that path. Instead, it spent £7bn on the purchase of the military branch of GEC, its only rival in the UK arms market. The deal was of doubtful value to either party. GEC, now called Marconi, decided to forgo the security it enjoyed as a privileged supplier to the Ministry of Defence and to plunge into the global market-place for telephonic equipment. Within a couple of years it was effectively defunct. BAE Systems has not collapsed, but its present capital value is barely a third of that of BAe just before the merger.

Behind its move on GEC there were two fundamental strategic decisions. First, the company would indeed move away from being primarily a workshop for the UK military, but would seek its fortune, not (mainly) in Europe, but in the United States, using the 'special relationship' to prise open that country's immense and heavily protected military market. In the late '90s the US giants, Boeing, Lockheed Martin and Raytheon, were financially weak, and BAE Systems, flush with its Arabian dollars, aspired to buy one of them, or at any rate to merge with it on equal terms. It did in fact acquire bits of Lockheed as well as some smaller US companies, and it has won some substantial orders from the Pentagon, including a promise of 15 per cent of the huge Joint Strike Fighter project; but the biggest prizes have eluded it.

Secondly, as its new name proclaimed, it would move away from being a mere plane-maker and emerge as a designer and integrator of electronic 'systems'. (Its French rival Thales has acidly pointed out that it was into electronics when BAE was merely sticking bits of aluminium together.) Purchase of GEC was meant primarily to provide it with the neces-

sary brain-power. But GEC had been starved of investment for many years, especially in personnel, and the results were clearly disappointing. The purchase also brought with it three struggling shipyards which to date have yielded more trouble than profit.

BAE Systems aspired to be a 'prime contractor', organising the work of a vast array of lesser companies. As far as possible it would 'outsource' the actual business of production, preferably to places where costs were lower than in the UK.

So the UK arms industry, especially its aircraft division, had two powerful motives for pressing its wares on South Africa. In the first place, it needed sales to keep its production lines open and its dividends steady in the awkward interval between the winding down of its Saudi business and the cranking up of the Eurofighter and Joint Strike Fighter programmes. And it also sought control of the South African arms industry, parts of which combined high technology with low cost.

The direct financial benefits to BAES from the South African deal are not likely to be enormous, even if the full complement of 24 Hawks and 28 Gripens are eventually purchased. The company owns 35 per cent of SAAB but 50 per cent of the marketing subsidiary, Gripen International; so it stands to receive half of the £1.08bn that is due for the Gripens plus £470m for the Hawks, or a total of just under £1bn. That is about the sum that would accrue from the still-awaited sale of 66 Hawks to India, with the important difference that the South Africans have agreed the asking price while the Indians, so far, have not. With payment spread over 14 years, the company's turnover should be increased by about £70m a year – a far cry from the al Yamama bonanza. Currently, some 2 per cent would be added to its order book. The deal, in other words, is useful. It should postpone the closure of the Hawk production line for a while. But it is hardly life and death for the company as a whole.

More important, almost certainly, is the role assigned to South Africa in the company's global strategy. According to Major-General Sharman, head of the Defence Manufacturers' Association, 'South Africa is near the top of the list for the outsourcing of British military equipment'.<sup>108</sup> By taking control of the South African industry, whether through purchase or joint ventures and partnerships, BAES, Rolls-Royce, SAAB, Thales and EADS, are ensuring that they can direct and profit from that

process, and from South Africa's advance into the wider arms market. When South Africa gets round to ordering some 100 tanks, as it intends to do, Alvis Vickers, having acquired a controlling share in the South African armoured vehicle industry, is well placed to secure the order that Vickers would have failed to win in 1998. Even though most of the work will be carried out locally, the UK company can expect a design fee and a share in the profits. Much the same applies to the hundreds of lighter armoured vehicles that are also in prospect.

The deal has wider implications for industry. Thus Thyssen and Ferrostaal, members of the German warship consortium and contractors for the Coega project, would not only receive income from the warship sales but also presumably looked to gain from the transfer of steel production from Germany to South Africa.

There are admittedly some contradictions. Denel's intrusions into the UK military market are at the expense of Royal Ordnance and potentially of the former Vickers artillery works at Barrow-in-Furness,<sup>109</sup> and both these are owned by BAES. Royal Ordnance, purveyors of guns and ammunition to the national armed forces since the time of the Tudors, was unloaded on to British Aerospace by the Thatcher government. It is not a profitable operation and the company would like to be rid of it. But its ammunition plants provide employment on Clydeside and in north-east England, and Labour MPs were indignant at the export of jobs to South Africa. ('Defence' debates in the House of Commons are concerned almost entirely with constituency interests of this kind.) On this matter a compromise has been worked out; but there is little doubt that outsourcing of UK arms production will continue, with South Africa and eastern Europe as its main destinations. BAES seems to have convinced its core workers that there will be a net gain to them, since the subcontracting to foreigners is part of a package that includes export orders.

There are other complications. Denel also has an arrangement with German company Diehl gmbh, which competes with BAES in the UK and Kuwaiti markets for artillery shells. And for good measure South Africa's Fuchs Electronics competes with Diehl in the sale of fuses. But such rivalries must not obscure the common interest of the international arms industry in maximising the sale of equipment which is at best useless and at worst

<sup>108</sup> *Defence Systems Daily*, 25.5.01

<sup>109</sup> *Financial Times*, 24.8.98; *Jane's International Defence Review*, Aug 2002

destructive, to the benefit of directors, shareholders and select groups of highly-paid workers and the detriment of everyone else.

## The governments

The industry could not function, however, without the complicity of governments, who are the sole buyers of arms and often their enthusiastic salesmen. The South African deal had the backing of successive governments in the UK. Nelson Mandela had hardly settled into the presidency when a large team of business magnates, led by John Major, descended on him in June 1994, eager to explore the newly legitimate market. Among them were the leaders of British Aerospace, GEC and Rolls-Royce. Major is reported to have pressed the case for the corvettes that then headed both the UK and the South African wish-lists.<sup>110</sup> The project was promoted again in April 1995 by the Defence Secretary Malcolm Rifkind, who visited South Africa accompanied by a senior official of the Defence Export Services Organisation. And in March 1996, having announced an ambitious programme of arms procurement, Joe Modise signed a 'memorandum of understanding' with the UK High Commissioner which in some ways prefigured the eventual deal. Hawks as well as corvettes were now in view, and a sum of £1bn was mentioned.<sup>111</sup> But at that time Modise's rearmament scheme was only an aspiration with no political or financial backing. By the middle of the year it was finally clear that the UK was not going to get an order for warships, and its interest appeared to slacken. At any rate the industry used the UK press to complain of Foreign Office 'indifference' which, it alleged, had allowed the Germans to win the naval orders.<sup>112</sup> In fact the UK's own naval rearmament plans were relieving the pressure on the shipyards, making the need for warship orders less desperate. It is also possible, though unprovable, that the UK and German governments had agreed to divide the South African spoils.

If there was any UK indifference, however, it was short-lived. In January 1999 Tony Blair interrupted a family holiday in the Seychelles to visit Pretoria, partly at least to 'clinch' the orders for Hawks, Gripens and Lynxes. The ground had been prepared by previous high-level discussions; and indeed the visits paid by Thabo Mbeki to Germany in 1996 and to London in 1997 were very probably the crucial events in the whole story.

It is well known to be an article of faith throughout the UK establishment that the

## **[Tony Blair's] support for the UK arms industry has been unwavering. One of his first actions in government was to sanction the continuing sale of Hawks to Suharto's Indonesia, probably overruling his Foreign Secretary**

arms export trade is a matter of the highest national interest. Usually this is presented in economic terms, with a special emphasis on jobs. In 1998 the government initiated a cost-benefit analysis of the trade to be carried out in conjunction with academic 'defence economists', confidently expecting the results to be firmly positive. They were in fact so disappointing that they appeared simply as a publication of the University of York, without government blessing. Generally, the conclusion of economists is that the net benefits of the arms trade to the UK economy are either insignificant or negative (see CAAT publication, Subsidies Factsheet, Feb 2002). The jobs argument is nevertheless of some political importance. A complete cessation might have no general adverse effects in the long run, but it would certainly do short-term damage in some politically marginal areas such as central Lancashire. In many other constituencies, too, arms industry workers form a small but identifiable interest group that politicians are reluctant to offend. But employment is not the real reason for government support of this particular industry.

Tony Blair took advantage of a visit to Prague early in 2002 to plug the sale of Gripens to the Czechs. (New and aspirant members of NATO in eastern Europe are under heavy pressure to exchange their old Soviet fighter planes for modern Western ones, whether they want them or not; the only question is whether they will buy French, US or Anglo-Swedish.) 'Backing British exports abroad', he explained, 'is part of my job'.<sup>113</sup> It is doubtful, however, whether he would have gone out of his way to tout for Anglo-Swedish saucepans. The arms trade is special, because the arms industry is special, and cannot survive in peace-time on domestic orders alone. And the industry is special because the many governments see it as the indispensable accessory of a state that wishes to count for something in the world.

That belief is firmly held in the UK by politicians of most political persuasions, and most firmly of all by the present Prime Minister, whose vision of the UK, as has become abundantly clear, is dominated by the ability and willingness to wage war, if not alone then as a significant ally of the United States. His support for the UK arms industry

110 *Arms Trade News*, Dec 1994

111 *Engineer*, 28.3.96

112 *Sunday Times*, 5.7.98

113 *Hansard*, 25.4.02, Col. 429W

has been unwavering. One of his first actions in government was to sanction the continuing sale of Hawks to Suharto's Indonesia, probably overruling his Foreign Secretary. He later insisted on licensing the sale of Hawk spare parts to Zimbabwe, despite its military intervention in the Congo. In the summer of 2002 he was asked whether he thought it right to licence arms sales to India and Pakistan, then apparently on the brink of war. He replied that he thought it 'a bizarre idea that we should close down the British arms industry because of what is going on out there.' Nor has his government merely permitted the sale of weaponry to India; it has actively promoted it. 'The government', a defence minister told Parliament in April, 'continues to support British Aerospace's (sic) efforts to export Hawk trainers to India.' So there is no mystery about its pursuit of arms sales to South Africa.

## The UK and South Africa

South Africa has some special advantages as a market for UK armaments. There are the historic ties, personal, financial and cultural, that link the British and South African elites. One of the official languages, and the main language of business, is English. The UK is South Africa's principal trading partner and the biggest source of its foreign capital, with an estimated £10bn already invested. Both Nelson Mandela and Thabo Mbeki are anglophiles, who are probably more at home in London than in any other foreign capital.

In addition there is a powerful feeling in the UK, especially on the Left, that the new South Africa is a special case, a country which should not be denied anything that it might appear to want. The most celebrated anti-apartheid activist in the UK, the South-African born Peter Hain, was by the late '90s a Foreign Office minister with special responsibility for Africa; and he clearly did not expect to be contradicted in either country (though he was) when he declared that 'no-one should object to selling arms to South Africa'.<sup>114</sup> The former leader of the Swedish anti-apartheid movement has likewise backed the Gripen sale. It is perhaps time to recognise that South Africa is a country like any other and that the judgement of its leaders is not immune to criticism. Its people deserve not to be subjected to self-interested pressures from European states.

## Local economists have actually taken the government to court over the loan contracts, arguing that they are so disastrous as to be unconstitutional

Above all, in the face of the AIDS disaster, those who have helped to persuade it to divert resources from health to arms bear a heavy responsibility. Like cigarette salesmen, who claim that their advertisements do not influence the decision to smoke but only the choice of brands, UK ministers would probably argue that South Africa in its sovereign wisdom decided to equip itself with high-tech weaponry and they did no more than persuade it to buy British. That, however, is at best a half-truth; for, as we have seen, buying British was the most expensive option.

The arms deal needs to be seen in a still broader context. South Africa has emerged as the leading sponsor of the New Partnership for African Development (NEPAD). This is a grandiose plan for the regeneration of the continent, in which large but not very specific promises of Western money would induce African governments to put their houses in order and create suitable conditions for capitalist investment, thus unblocking what Tony Blair has described as its 'vast untapped potential'. As the most developed, democratic and stable country in the region, South Africa is the West's indispensable partner in this enterprise; and under Mbeki it is willing in principle to act as such. For some observers NEPAD is a genuinely idealistic and hopeful venture. For others, it is the new face of imperialism. It may of course be both; and it may also be neither. For the most likely outcome is that, when it comes to the crunch, the West will not come up with the money that is needed to get the process launched.

The particular relevance of NEPAD is that it inevitably has a military aspect, for everyone agrees that economic reform is impossible without the restoration of peace and order – though most would insist also that peace and order are unlikely without economic improvement. Again, South Africa is now less reluctant to take up the role of guardian than it was in the first years of the new regime. That will inevitably mean more expenditure on the military – though perhaps not on the kinds of weaponry that the UK and Europe are most eager to sell.

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## Postscript

The arms deal is now more than three years old, but it is not just of historical interest. There is still the second batch of 18 fighter aircraft; and it is still open to South Africans to decide that they have better things to spend their money on. Local economists have actually taken the government to court over the loan contracts, arguing that they are so disastrous as to be unconstitutional. On the other hand, there is also growing pressure for a further round of expensive purchases, this time for the Army, which is demanding large numbers of armoured vehicles, probably including 95 main battle tanks (to crush what opposition?) as well as air-defence systems (to shoot down what enemy planes?). It is intended that these needs should be met within a decade or so, by a complex mix of imports and local manufacture, mostly by companies that are now or will soon be wholly or partly foreign-owned. In South Africa the debate continues, and it should continue here as well.

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# Abbreviations

|                   |   |
|-------------------|---|
| <b>ANC</b>        | African National Congress                           |
| <b>Ceasefire</b>  | Ceasefire Anti-War News                             |
| <b>DIP</b>        | Defence Industrial Participation                    |
| <b>ECA</b>        | Export Credit Agency                                |
| <b>ECAAR – SA</b> | Economists Allied for Arms Reduction – South Africa |
| <b>FCO</b>        | Foreign and Commonwealth Office                     |
| <b>LIFT</b>       | Lead-In Fighter-Trainer                             |
| <b>MK</b>         | Umkhonto we Sizwe ('Spear of the Nation')           |
| <b>NIP</b>        | National Industrial Participation                   |
| <b>NDPP</b>       | National Director of Public Prosecutions            |
| <b>NEPAD</b>      | New Partnership for African Development             |
| <b>SADIA</b>      | South African Defence Industries Association        |
| <b>SA(N)DF</b>    | South African (National) Defence Force              |



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